

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|   |                             |   |                        |
|---|-----------------------------|---|------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                             | Local Government Name <i>Western Upper Peninsula District Health Department</i> | County <i>Houghton</i> |
| Audit Date <i>9/30/05</i>   | Opinion Date <i>1/20/06</i> | Date Accountant Report Submitted to State: <i>3-21-06</i>                       |                        |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | X        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | X            |
| Single Audit Reports (ASLGU).   |          |                 | X            |

|   |                       |                 |                  |
|---|-----------------------|-----------------|------------------|
| Certified Public Accountant (Firm Name) <i>Anderson, Tackman &amp; Co, PLLC</i> |                       |                 |                  |
| Street Address <i>102 W. Washington St., Suite 109</i>                          | City <i>Marquette</i> | State <i>MI</i> | ZIP <i>49855</i> |
| Accountant Signature <i>Michael A. [Signature] CPA</i>                          |                       |                 |                  |

**WESTERN UPPER PENINSULA  
DISTRICT HEALTH DEPARTMENT  
COMPONENT UNIT FINANCIAL  
STATEMENTS  
For the Year Ended September 30, 2005**

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# ANDERSON, TACKMAN & COMPANY, P.L.C.

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## INDEPENDENT AUDITORS' REPORT

Board of Health  
Western Upper Peninsula District  
Health Department  
Hancock, Michigan 49930

We have audited the accompanying financial statements of the governmental activities of the Western Upper Peninsula District Health Department a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Health Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Health Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Western Upper Peninsula District Health Department as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, schedule of expenditures by reporting unit and the schedule of departmental expenditures are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Health  
Western Upper Peninsula District  
Health Department  
Hancock, Michigan 49930

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated January 20, 2006 on our consideration of the Western Upper Peninsula District Health Department's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Upper Peninsula District Health Department's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Western Upper Peninsula District Health Department. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

January 20, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Health Department's financial performance provides an overview of the Health Department's financial activities for the year ended September 30, 2005. Please read it in conjunction with the financial statements, which begin on page 13.

### FINANCIAL HIGHLIGHTS

- Net assets for the Health Department as a whole increased by \$168,297 as a result of this year's operations.
- The general fund reported an increase in fund balance of \$95,670. This is \$266,353 higher than the forecasted decrease of \$170,683.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) provide information about the activities of the Health Department as a whole and present a longer-term view of the Health Department's finances. Expenditure schedules for each Health Department Program start on page 26. These statements report the Health Department's operations in more detail than the Agency-wide statements, showing expenditures for each program by main expense category.

### Reporting the Health Department as a Whole

Our analysis of the Health Department as a whole begins on page 6. One of the most important questions asked about the Health Department's finances is "Is the Health Department as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Health Department as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Health Department's *net assets* and changes in them. You can think of the Health Department's net assets - the difference between assets and liabilities - as one way to measure the Health Department's financial health, or *financial position*. Over time, *increases or decreases* in the Health Department's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Health Department's client base and the condition of the Health Department's capital assets, to assess the *overall financial health* of the Health Department.

All of the Health Department's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Health Department's basic services including general services and administration are reported here, as are discretionary programs like Superior Home Nursing and Hospice. Health Department activities are primarily funded by fees for services and state and local sources of funds.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)** (Continued)**Reporting on the Health Department's General Fund**

All Health Department programs and services are reported in the General Fund. Our analysis of the Health Department's general fund begins on page 24. These financial statements provide detailed information on Health Department's expenditures by reporting unit.

- *Governmental funds* – All of the Health Department's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Health Department's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Department's programs.

**The Health Department as a Whole**

Table I provides a summary of the Health Department's net assets as of September 30, 2005 and 2004.

| <b>Table 1</b>                                  |   |   |
|---|---|---|
| <b>Net Assets</b>                               |   |   |
|   | <u>Governmental<br/>Activities - 2005</u> | <u>Governmental<br/>Activities - 2004</u> |
| Current and other assets                        | \$1,802,365                               | \$1,754,708                               |
| Capital assets, net                             | 868,204                                   | 941,570                                   |
| <b>Total Assets</b>                             | <u><b>\$2,670,569</b></u>                 | <u><b>\$2,696,278</b></u>                 |
| Current liabilities                             | \$538,029                                 | \$586,042                                 |
| Non-current liabilities                         | 639,823                                   | 785,816                                   |
| <b>Total Liabilities</b>                        | <u><b>\$1,177,852</b></u>                 | <u><b>\$1,371,858</b></u>                 |
| <b>Net Assets:</b>                              |   |   |
| Invested in capital assets, net of related debt | \$547,213                                 | \$449,147                                 |
| Restricted                                      | -   | -   |
| Unrestricted                                    | 945,504                                   | 875,273                                   |
| <b>Total Net Assets</b>                         | <u><b>\$1,492,717</b></u>                 | <u><b>\$1,324,420</b></u>                 |

Net assets of the Health Department's governmental activities stood at \$ 1,492,717. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$ 945,504.

The results of this year's operations for the Health Department as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2005 and revenue and expense in fiscal year 2005 compared to revenue and expense in fiscal 2004.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**Table 2  
Change in Net Assets

|                                      | Governmental<br>Activities – 2005 | Governmental<br>Activities - 2004 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| <b>Revenues</b>                      |                                   |                                   |
| Charges for services                 | \$4,222,653                       | \$4,277,145                       |
| Projects and Grants                  | 1,251,063                         | 1,026,960                         |
| State/Local Public Health Operations | 413,039                           | 420,039                           |
| Cigarette Tax                        | 29,331                            | 30,672                            |
| Total Revenues                       | 5,916,086                         | 5,754,816                         |
| <b>Program Expenses</b>              |                                   |                                   |
| Salaries and Wages                   | 3,377,938                         | 3,365,527                         |
| Fringe Benefits                      | 1,207,696                         | 1,274,533                         |
| Supplies                             | 519,489                           | 494,384                           |
| Contracted Services                  | 201,208                           | 152,623                           |
| Communications                       | 50,980                            | 57,568                            |
| Travel and Training                  | 288,028                           | 257,047                           |
| Printing and Advertising             | 69,025                            | 52,397                            |
| Insurance                            | 56,221                            | 52,680                            |
| Utilities                            | 34,221                            | 32,885                            |
| Repairs and Maintenance              | 76,088                            | 71,153                            |
| Leases and Rentals                   | 51,023                            | 50,584                            |
| Miscellaneous                        | 42,912                            | 36,673                            |
| Capital Outlay                       | 71,629                            | 39,271                            |
| Depreciation                         | 73,366                            | 94,059                            |
| Interest Expense                     | 27,513                            | 42,914                            |
| Total Expenses                       | 6,147,337                         | 6,074,298                         |
| Excess (deficiency) before transfers | (231,251)                         | (319,482)                         |
| Transfers                            | 399,548                           | 377,774                           |
| Increase (decrease) in net assets    | 168,297                           | 58,292                            |
| Net assets, beginning                | 1,324,420                         | 1,266,128                         |
| Net Assets, Ending                   | \$1,492,717                       | \$1,324,420                       |

The Health Department's total revenues were \$ 6,315,634, including local county funding shown as transfers. The total cost of all programs and services was \$ 6,147,337, leaving an increase in net assets of \$ 168,297. Our analysis below considers in more detail the operation of the Health Department's programs (in governmental activities) during 2005.

**Governmental Activities**

To understand the operation of the health department, its programs and services can be seen as falling into one of two broad categories: those basic to local public health departments in Michigan and special programs operated by this health department. The health department's basic public health services are funded by state grants and local funding. Local funding consists of county appropriations, user fees and home health net revenue. The health department's special programs include dental services, the RSVP project, senior screening, substance abuse prevention and the Superior Home Nursing and Hospice Division. These programs are largely funded by state and federal grants, and fees for service.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

As 2005 began, the health department projected an operating deficit of \$170,683, which was to be funded from the Superior Home Nursing and Hospice fund balance. The year-end results surpassed the health department's initial negative budget projections by producing an operating surplus of \$95,670.

The primary reason for the year's positive performance was that expenses ended some \$260,000 under budget, while revenues were almost exactly at budget. Personnel costs (salaries and benefits) were \$380,000 under budget by year end, while other operating costs exceeded the budget by \$120,000.

As the salary budget variance indicates, 2005 was an eventful year. The health department operated with six FTEs less than budgeted due to a number of factors. Administration continued to operate with 1.5 fewer staff than its full staffing level of two years ago, causing the administrative cost ratio to fall below 16%. Most significantly, Superior Home Nursing and Hospice experienced unusual attrition, losing 10 staff members to resignation and retirement. The largest effect was in Ontonagon County, where three nurses and a physical therapist moved on during 2005. By year's end, aggressive recruiting succeeded in replacing only half those who left.

Benefits costs also fell well below budget, with health insurance costs the driver. The health department succeeded in having Blue Cross Blue Shield revise its industry rating classification, which provided the health department a year with no premium increase. Reduced salary expense and the favorable health insurance change allowed fringe costs to end the year at 35% of salaries, instead of the budgeted 39%.

Public health operations were on target with expectations, and grant funding from all sources was maximized. In fact, strong client activity resulted in increased grant funding supplemental) during the year in Emergency Preparedness, WIC, Electronics Recycling, Child Special Services, and Breast and Cervical Cancer Control Program. User fees met projected targets, as environmental health programs and disease control clinics saw activity levels similar to prior years.

Superior Home Nursing and Hospice's business performance in 2005 was positive, posting a profit for the first time in three years. The gross margin for the division was 0.5%, counting all payor sources. The margin for Medicare services alone was 14% in home health services, balanced by a 20% loss in our start-up hospice services.

Total revenue for Superior Home Nursing and Hospice in 2005 was \$3,531,800, consisting of \$2,926,800 for home health operation, \$184,000 in hospice services, and \$421,000 in therapy staffing contract revenue. During the year, Superior Home Nursing and Hospice also posted third party contractual write-down of \$180,461. Contractual write-down allowances are routine; Medicaid and health plans pay less than charges, and this year half the allowance followed Medicare case review.

Daily caseload in 2005 averaged 211 clients, varying from a low of 192 in January to a high of 229 in July. Total clients served in 2005 were 575, an increase of 22 from the 2004 total of 553.

Strong performance was seen in the therapy staffing contract service Superior Home Nursing and Hospice provides to local hospitals and long term care facilities. Revenue from contracts was up by \$80,000 over the prior year, as we met the growing area-wide demand for therapy services. Superior Home Nursing and Hospice hired four physical therapy assistants in 2005, and brought a physical therapist contractor on board. We are still actively recruiting a physical therapist. On the year's increased revenue, the therapy contract service added nearly \$75,000 in (net) income to the agency's operation in 2005.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

In other operational measures, 2005 proved an uneventful year. Visits per episode decreased from 17.7 to 15.1, a measure of good care management. However, LUPA rates increased from 11% to 17%, decreasing revenue as low payment cases increased. Staff efficiency is also a critical component of profitability, and in this no gains were made in 2005. RN productivity remained stable at 3.2 visits/day, while aide productivity decreased slightly to 5.8 visits/day.

Back-office operations improved in 2005, as days-in-accounts receivable decreased and cash on hand doubled. Emphasis on timely nursing documentation and accelerated billing paid dividends.

Overall, the health department exceeded expectations in 2005. Public health programs met their activity targets for the year and maximized grant income. Local county partners maintained their funding support during 2005 at appropriate levels. And, Superior Home Nursing and Hospice's financial performance was positive, providing care to an increasing caseload while contributing more than \$540,000 to agency overhead costs.

These elements of our operation, taken together, resulted in a net increase in assets for 2005.

### **THE HEALTH DEPARTMENT'S FUNDS**

As the Health Department completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$1,264,336, an increase of \$95,670 from the beginning of the year.

The health department's funds balance consists of the accumulated operating surplus produced by Superior Home Nursing and Hospice. It's improvement during the fiscal year is a result of Superior Home Nursing's profitable financial performance in 2005, combined with stable funding from state and federal grant sources, strong customer activity reflected in user fees, and satisfactory funding from local governmental units.

At year's end, total funds of \$1,264,336 was composed of restricted funds totaling \$418,832, and unreserved funds of \$845,504. The unreserved funds balance equates to 49 days of operating capital, or 13% of budget. By way of comparison, the optimal funds position is 75 days, or 20%.

### **General Fund Budgetary Highlights**

Over the course of the year the Health Department did not revise the budget; actual charges to expenditures were \$4,717 less than the original budget. Conversely, revenues were \$261,636 more than the original budget projection.

Revenues for the year met budget expectations in total, except for the unbudgeted value of vaccines received from MDCH, nearly \$265,000. However, there was some variation in specific revenue components.

Home nursing revenue came in about \$100,000 above projections, which was balanced by contractual allowances from Medicare and Medicaid to net out \$60,000 below budget. However, the public health services were able to secure \$60,000 in additional grant funds during the year, in these programs: Emergency Preparedness \$10,000; WIC \$17,000; Children's Special Services \$5,650; Electronics Recycling \$12,600; and others \$14,750. The major revenue deviation from budget was the value of vaccines received from the Federal

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

Vaccines for Children Program (\$264,922). This same amount is reported as an expense in the supply budget line, explaining the deviation from budget in that category. Actual revenues, net of the vaccine value, were on target.

Expenses were well below budget in 2005. The year-end adjustment for value of vaccines increased expenditures by \$265,000; without that adjustment, actual expenditures fell \$269,640 below budget.

The major expense deviation was in personnel costs. Unexpected attrition in Superior Home Nursing and Hospice reduced overall health department employment by six FTEs from budget, and the administrative unit did not fill long-standing open positions. Reduced fringe benefit costs associated with lower salary expense, and a \$100,000 reduction in health insurance premiums – due to favorable re-rating by Blue Cross Blue Shield of Michigan – were also significant components of the expenditure variance. These large decreases in anticipated spending were partially offset, however, by unexpected increases in these expense categories: travel, repairs, capital outlay, contractual, and miscellaneous.

Travel expense, related as it is to gasoline price, is an understandable variation. Miscellaneous expense costs include advertising expense, which was expanded in 2005 due to recruiting needs. Capital outlay includes the early lease – purchase payoff on the Ontonagon office, while contracting costs were above budget in electronics recycling, as community demand far exceeded original projections, and in Superior Home Nursing, where contract therapy service was used to fill in for employed therapist vacancies.

Overall, 2005 health department operations fairly evenly met the year's budget expectations in revenue production, while falling below projections in expended cost. The year-end adjustment to both revenues and expenditures of an equal amount to give value to vaccine product received inflated both actual revenues and expenses.

**CAPITAL ASSET AND DEBT ADMINISTRATION****Capital Assets**

At the end of fiscal 2005, the Health Department had \$ 868,204 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

| Table 3<br>Capital Assets at Year-End<br>(Net of Depreciation) |                                   |                                   |
|--|-----------------------------------|-----------------------------------|
|  | Governmental<br>Activities – 2005 | Governmental<br>Activities – 2004 |
| Land   | \$90,000                          | \$90,000                          |
| Buildings  | 736,531                           | 796,048                           |
| Equipment and furnishings                                      | 36,106                            | 47,445                            |
| Land improvements  | 5,567                             | 8,077                             |
| Construction in progress                                       | -                                 | -                                 |
| Totals   | <u>\$868,204</u>                  | <u>\$941,570</u>                  |

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)** (Continued)

The capital assets of the health department include buildings in Hancock, Ontonagon, and L'Anse being purchased via installment purchase agreements. A fourth office is in Bessemer in leased space. The Health Department did not purchase any new capital assets in the current year.

**Debt**

At year-end, the Health Department had \$ 320,991 in installment purchase agreements as depicted in Table 4 below.

| Table 4<br>Outstanding Debt at Year-End |                                   |                                   |
|---|-----------------------------------|-----------------------------------|
|   | Governmental<br>Activities - 2005 | Governmental<br>Activities - 2004 |
| Contracts and notes payable             | \$320,991                         | \$492,423                         |
| Totals                                  | \$320,991                         | \$492,423                         |

There were no new additions to debt for this year and further details on long-term debt can be found in Note F.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The health department's management and Board analyze many factors, including market projections, industry reimbursement trends, governmental funding prospects and anticipated cost increases when setting each year's budget. The central challenge for 2006 is the need to support expanding personnel costs with nearly flat revenues.

The 2006 budget contains a 2.6% increase in total expenditures, predicated on an increase in salary cost, travel, and benefit expense. Salary costs will increase by 7.2%, 4.2% attributable to contract pay scale increases, and 3% due to new staff hires. The health department will hold its benefits costs to 35% of salaries, the same as 2005, due to a change for most employees in their level of health insurance coverage. The health department's base insurance plan is lower cost in 2006, but employee's may purchase higher coverage. To further balance the wage and travel cost increases, the health department will manage all other spending to save \$100,000 from the 2005 level.

Regarding revenue, 2006 is expected to produce just \$50,000 more than the past year. The health department expects a decrease of nearly \$35,000 in transfers from Michigan Department of Community Health, most in the school hearing screening and emergency preparedness programs. The health department also anticipates decreased reimbursement from Medicare to take hold in 2006, limiting any expansion in home health revenue. The budget does project approximately \$85,000 more in revenues from fees, staffing contract billings, and hospice business.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

In a positive development for 2006, local funding to the health department coming from the five counties which comprise the health department's district, Houghton, Keweenaw, Baraga, Ontonagon, and Gogebic, will remain stable. The five counties will provide \$399,548 to support public health services, filling 6% of the health department's expense budget.

The reality of rising costs during a period of declining state and federal governmental funding makes the effective operation of Superior Home Nursing and Hospice and the tradition of strong county support necessities for the health department. In 2006, continuing emphasis will be placed on fulfilling Superior Home Nursing and Hospice's mission to provide its nursing care to every corner of the five counties, and to do so in a manner that returns net income to help fund the health department's public health programs.

**CONTACTING THE HEALTH DEPARTMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Health Department's finances and to show the Health Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Western Upper Peninsula District Health Department, 540 Depot Street, Hancock, MI 49930.

**Western Upper Peninsula District Health Department**  
Governmental Funds Balance Sheet / Statement of Net Assets  
September 30, 2005

|   | Balance<br>Sheet    | Adjustments         | Statement<br>Of Net<br>Assets |
|---|---------------------|---------------------|-------------------------------|
| <b>ASSETS:</b>  |                     |                     |                               |
| Cash and cash equivalents:                            |                     |                     |                               |
| Unrestricted  | \$ 135,431          | \$ 434,834          | \$ 570,265                    |
| Reserved  | 434,834             | (434,834)           | -                             |
| Accounts Receivable:                                  |                     |                     |                               |
| Home health   | 1,011,503           | -                   | 1,011,503                     |
| Special projects                                      | 91,535              | -                   | 91,535                        |
| Other   | 20,230              | -                   | 20,230                        |
| Deferred expenses                                     | 108,832             | -                   | 108,832                       |
| Capital assets - net                                  | -                   | 868,204             | 868,204                       |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 1,802,365</b> | <b>868,204</b>      | <b>2,670,569</b>              |
| <b>LIABILITIES:</b>                                   |                     |                     |                               |
| Accounts payable                                      | 96,063              | -                   | 96,063                        |
| Due to others   | 926                 | -                   | 926                           |
| Accrued salaries and wages                            | 223,829             | -                   | 223,829                       |
| Deferred revenue                                      | 187,789             | -                   | 187,789                       |
| Long-Term Liabilities                                 |                     |                     |                               |
| Accrued compensated absences - due within one year    | 29,422              | 95,650              | 125,072                       |
| Accrued compensated absences - due after one year     | -                   | 223,182             | 223,182                       |
| Installment purchase agreements - due within one year | -                   | 136,837             | 136,837                       |
| Installment purchase agreements - due after one year  | -                   | 184,154             | 184,154                       |
| <b>TOTAL LIABILITIES</b>                              | <b>538,029</b>      | <b>639,823</b>      | <b>1,177,852</b>              |
| <b>FUND BALANCE/NET ASSETS:</b>                       |                     |                     |                               |
| Fund balance:   |                     |                     |                               |
| Reserved  |                     |                     |                               |
| Employee benefits                                     | 318,832             | (318,832)           | -                             |
| Management information systems                        | 50,000              | (50,000)            | -                             |
| Capital improvements                                  | 50,000              | (50,000)            | -                             |
| Total reserved fund balance                           | 418,832             | (418,832)           | -                             |
| Unreserved:   | 845,504             | (845,504)           | -                             |
| <b>TOTAL FUND EQUITY</b>                              | <b>1,264,336</b>    | <b>(1,264,336)</b>  | <b>-</b>                      |
| <b>TOTAL LIABILITIES AND FUND EQUITY</b>              | <b>\$ 1,802,365</b> |                     |                               |
| <b>Net assets:</b>                                    |                     |                     |                               |
| Invested in capital assets - net of related debt      |                     | 547,213             | 547,213                       |
| Unrestricted  |                     | 945,504             | 945,504                       |
| <b>TOTAL NET ASSETS</b>                               |                     | <b>\$ 1,492,717</b> | <b>\$ 1,492,717</b>           |

The Notes to Financial Statements are an integral part of this statement.

**Western Upper Peninsula District Health Department**  
Governmental Fund Statement of Revenues, Expenditures and Changes  
in Fund Balance / Statement of Activities  
For the year ended September 30, 2005

|  | General Fund        |                   | Statement of        |
|--|---------------------|-------------------|---------------------|
|  | Modified            |                   | Activities          |
|  | Accrual Basis       | Adjustments       |                     |
| <b>REVENUES:</b>                               |                     |                   |                     |
| Fees and collections:                          |                     |                   |                     |
| Home health services                           | \$ 3,531,822        | \$ -              | \$ 3,531,822        |
| Contractual allowance                          | (180,461)           | -                 | (180,461)           |
| Other fees, services and refunds               | 871,292             | -                 | 871,292             |
| Projects and grants                            | 1,251,063           | -                 | 1,251,063           |
| State local public health operations           | 413,039             | -                 | 413,039             |
| Cigarette tax                                  | 29,331              | -                 | 29,331              |
| <b>TOTAL REVENUES</b>                          | <b>5,916,086</b>    | <b>-</b>          | <b>5,916,086</b>    |
| <b>EXPENDITURES:</b>                           |                     |                   |                     |
| Salaries and wages                             | 3,377,938           | -                 | 3,377,938           |
| Fringe benefits                                | 1,182,257           | 25,439            | 1,207,696           |
| Supplies                                       | 519,489             | -                 | 519,489             |
| Contracted services                            | 201,208             | -                 | 201,208             |
| Communications                                 | 50,980              | -                 | 50,980              |
| Travel and training                            | 288,028             | -                 | 288,028             |
| Printing and advertising                       | 69,025              | -                 | 69,025              |
| Insurance                                      | 56,221              | -                 | 56,221              |
| Utilities                                      | 34,221              | -                 | 34,221              |
| Repairs and maintenance                        | 76,088              | -                 | 76,088              |
| Building and equipment lease/rentals           | 51,023              | -                 | 51,023              |
| Miscellaneous                                  | 42,912              | -                 | 42,912              |
| Capital outlay                                 | 71,629              | -                 | 71,629              |
| Depreciation                                   | -                   | 73,366            | 73,366              |
| Debt service                                   | 198,945             | (171,432)         | 27,513              |
| <b>TOTAL EXPENDITURES</b>                      | <b>6,219,964</b>    | <b>(72,627)</b>   | <b>6,147,337</b>    |
| <b>EXCESS REVENUES (EXPENDITURES)</b>          | <b>(303,878)</b>    | <b>72,627</b>     | <b>(231,251)</b>    |
| <b>OTHER FINANCING SOURCES (USES)</b>          |                     |                   |                     |
| Local units:                                   |                     |                   |                     |
| Baraga County                                  | 51,542              | -                 | 51,542              |
| Keweenaw County                                | 21,077              | -                 | 21,077              |
| Ontonagon County                               | 51,142              | -                 | 51,142              |
| Gogebic County                                 | 101,984             | -                 | 101,984             |
| Operating transfers from primary government:   |                     |                   |                     |
| Houghton County                                | 173,803             | -                 | 173,803             |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>    | <b>399,548</b>      | <b>-</b>          | <b>399,548</b>      |
| <b>EXCESS REVENUES AND OTHER</b>               |                     |                   |                     |
| <b>FINANCING SOURCES</b>                       | <b>95,670</b>       | <b>72,627</b>     | <b>168,297</b>      |
| <b>FUND BALANCE / NET ASSETS, OCTOBER 1</b>    | <b>1,168,666</b>    | <b>155,754</b>    | <b>1,324,420</b>    |
| <b>FUND BALANCE / NET ASSETS, SEPTEMBER 30</b> | <b>\$ 1,264,336</b> | <b>\$ 228,381</b> | <b>\$ 1,492,717</b> |

*The accompanying notes to financial statements are an integral part of this statement.*

# WESTERN UPPER PENINSULA DISTRICT HEALTH DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Western Upper Peninsula District Health Department (WUPDHD) is a discretely presented component unit of the County of Houghton, Michigan. The Health Department's purpose is to provide mandated public health services and other health services to the residents of Houghton, Ontonagon, Gogebic, Baraga and Keweenaw counties.

The financial statements of the Health Department have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Health Department are described below.

#### **(1) REPORTING ENTITY**

The Health Department's financial statements present the Health Department – component unit. In evaluating the Health Department as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Health Department may or may not be financially accountable and, as such, be includable within the Health Department's financial statements.

#### **(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

The Health Department's basic financial statement is government-wide (reporting the Health Department as a whole). All the Health Department's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Health Department's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Health Department first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Health Department's functions. The functions are supported by general revenues, (intergovernmental transfers, grants, user fees) and fees for services. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.



## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

The government-wide focus is more on the sustainability of the Health Department as an entity and the change in the Health Department's net assets resulting from the current year's activities.

### **BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:**

#### **Governmental Funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income.

The **General Fund** is the health department's primary operating fund. It accounts for all financial resources of the health department.

The emphasis in fund financial statements is on the major funds in the governmental activities or business-type categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

### **(3) BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

#### ***Accrual***

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

#### ***Modified Accrual***

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

### **(4) FINANCIAL STATEMENT AMOUNTS**

***Budgets and Budgetary Accounting*** - The Health Department follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Health Department Health Officer submits to the Health Department's Board of Health proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. Opportunities exist for public comment during the budget process since all action by the Board of Health occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Health Department budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Health Department's Board of Health, through policy action, specifically directs the Health Officer not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Health Department adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Health, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

**Cash Equivalents and Investments** - For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

**Capital Assets** – Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Health Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

|                                       |             |
|---------------------------------------|-------------|
| Land improvements                     | 20 years    |
| Building, structures and improvements | 40 years    |
| Equipment                             | 5-20 years  |
| Water and Sewage System               | 20 years    |
| Vehicles                              | 5 years     |
| Infrastructure                        | 20-50 years |

**Long-Term Liabilities** – In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

**Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

**Compensated Absences** – The Health Department accrues accumulated unpaid vacation and sick leave days and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**Deferred Revenues** – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

- (1) The Western U.P. District Health Department Component Unit Fund has deferred revenue of \$187,789. This amount represents \$ 174,667 from unearned Medicare revenue and \$ 13,122 from unearned rental income.

## NOTE B – CASH AND INVESTMENTS:

The cash and investments are classified by GASB Statement No. 40 in the following categories:

|  |                  |
|--|------------------|
| Petty Cash                               | \$1,215          |
| Imprest Cash                             | 18,202           |
| Investments – Held with County Treasurer | 550,848          |
| Total                                    | <u>\$570,265</u> |

Michigan Compiled Laws, Section 129.91, authorizes the health department to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Health Department has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The cash of the Health Department needs to be considered in conjunction with the overall county cash position in regards to Governmental Accounting Standards Board Statement #3 and #40. This information can be found in the September 30, 2005 combined annual financial statements for the County of Houghton, Michigan.

## NOTE C – RESERVED CASH:

The Health Department has reserved cash in the amount of \$50,000 for use in major renovation projects or future land and/or building acquisitions; \$50,000 for use in major MIS upgrade projects; \$318,832 for accrued compensated absences and \$16,002 for a Section 125 Cafeteria Plan for a total restricted cash of \$434,834.

**NOTE D – ACCOUNTS RECEIVABLE – HOME HEALTH:**

The balance of \$1,011,503 for Home Health accounts receivable includes an adjustment related to accounts receivable written off of \$180,461 and an allowance amount of \$34,254.

**NOTE E – COMPENSATED ABSENCES:**

The Health Department accrues a liability for earned sick leave based on the vesting method. The liability is accrued as the benefits are earned if it is probable that the Health Department will compensate the employees conditioned upon death or retirement. Upon death or retirement, the employee or their estate shall be paid for sick leave accumulated at their current rate of pay under the terms established by the respective labor agreement or administrative policy.

Employees earn annual leave or earned time off at varying rates based upon years of service. Upon retirement, death or termination of employment, employees or their estates are paid for outstanding annual leave or earned time off at their current rate of pay according to the terms established by the respective labor agreement or administrative policy.

The accrued compensated absences balance of \$ 29,422 as reported in the general operating fund and \$95,650 in the adjustment column represents the current portion for a total of \$ 125,072 and the balance of \$ 223,182 as reported under the long-term caption in the Statement of Net Assets represents the long-term portion of the liability.

**NOTE F – LOAN AND LEASE COMMITMENTS:**

Commitments under lease agreements and loans for facilities and equipment provide for annual payments as follows:

On December 26, 1991, the Health Department entered into an installment purchase agreement payable over 178 months for the acquisition of the Hancock facility. The agreement, effective December 1, 1991, requires monthly payments of \$11,354, which includes interest at a rate of 9%.

|       | Principal | Interest | Total     |
|-------|-----------|----------|-----------|
| 2006  | \$119,446 | \$16,796 | \$136,242 |
| TOTAL | \$119,446 | \$16,796 | \$136,242 |

On September 29, 2000, the Health Department entered into a 15 year land contract with BHK Child Development Board and the Copper Country Intermediate School District for the shared use of a building in L'Anse. The agreement, effective January 1, 2000, requires monthly payments of \$2,337, which includes interest at a rate of 5.5%.

|       | Principal | Interest | Total     |
|-------|-----------|----------|-----------|
| 2006  | \$17,391  | \$10,651 | \$28,042  |
| 2007  | 18,372    | 9,670    | 28,042    |
| 2008  | 19,409    | 8,633    | 28,042    |
| 2009  | 20,504    | 7,538    | 28,042    |
| 2010  | 21,660    | 6,382    | 28,042    |
| 2011  | 22,882    | 5,160    | 28,042    |
| 2012  | 24,173    | 3,869    | 28,042    |
| 2013  | 25,536    | 2,506    | 28,042    |
| 2014  | 26,977    | 1,065    | 28,042    |
| 2015  | 4,641     | 33       | 4,674     |
| TOTAL | \$201,545 | \$55,507 | \$257,052 |

**NOTE F – LOAN AND LEASE COMMITMENTS (Continued):**

Annual maturities on the Long-Term Debt are as follows:

|              |                  |
|--------------|------------------|
| 2006         | \$136,837        |
| 2007         | 18,372           |
| 2008         | 19,409           |
| 2009         | 20,504           |
| 2010         | 21,660           |
| 2011         | 22,882           |
| 2012         | 24,173           |
| 2013         | 25,536           |
| 2014         | 26,977           |
| 2015         | 4,641            |
| <b>TOTAL</b> | <b>\$320,991</b> |

Changes in long-term debt for the year ended September 30, 2005 are summarized as follows:

|   | Balance<br>10-01-04 | Additions       | Deletions        | Balance<br>09-30-05 |
|---|---------------------|-----------------|------------------|---------------------|
| Installment Purchase Agreement – Hancock Facility   | \$239,029           | \$ -            | \$119,583        | \$119,446           |
| Installment Purchase Agreement – Ontonagon Facility | 35,386              | -               | 35,386           | -                   |
| Installment Purchase Agreement – L'Anse Facility    | 218,008             | -               | 16,463           | 201,545             |
| Compensated Absences                                | 293,393             | 25,439          | -                | 318,832             |
|   | <u>\$785,816</u>    | <u>\$25,439</u> | <u>\$171,432</u> | <u>\$639,823</u>    |

**NOTE G – RESERVED FUND BALANCE:**

The Capital Improvements balance of \$50,000 is for future renovation of existing buildings or purchase of land and/or buildings.

The MIS Improvements balance of \$50,000 is for future renovation of the Management Information System.

The Employee benefits balance of \$ 318,832 is for future compensated absence payoffs.

**NOTE H – NET HOME HEALTH SERVICE REVENUE:**

Net home health service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors Blue Cross/Blue Shield. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The agency reports such activity through the submission of its annual cost reports which are subject to audit by the Medicare fiscal intermediary.

**NOTE I – DEFINED BENEFIT PENSION PLAN:**

*Plan Description* - The Health Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Health Department. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS.

*Funding Policy* - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Health Department's competitive bargaining units, and requires a contribution from the employees of 0% of gross wages.

**NOTE I – DEFINED BENEFIT PENSION PLAN (Continued):**

*Annual Pension Cost* - For the year ended September 30, 2005, the Health Department's annual pension cost of \$ 300,396 for the plan was equal to the Health Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, and (b) projected salary increases of 4.5 percent per year and (c) a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three Year Trend Information from Actuarial Valuation  
Fiscal Year Ended December 31

|   | 2002       | 2003       | 2004       |
|---|------------|------------|------------|
| Annual Pension Cost                     | \$ 234,061 | \$ 218,160 | \$ 244,908 |
| Percentage of APC Contributed           | 100%       | 100%       | 100%       |
| Net Pension Obligation                  | 0          | 0          | 0          |
| Actuarial Value of Assets               | 5,587,356  | 6,014,110  | 6,365,075  |
| Actuarial Accrued Liability (Entry Age) | 6,092,779  | 6,930,189  | 6,970,652  |
| Unfunded AAL                            | 505,423    | 916,079    | 605,577    |
| Funded Ratio                            | 92%        | 87%        | 91%        |
| Covered Payroll                         | 2,975,938  | 3,370,346  | 3,054,386  |
| UAAL as a Percentage of Covered Payroll | 17%        | 27%        | 20%        |

**NOTE J – CONTINGENT LIABILITIES:**

Risk Management - The Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Health Department was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Health Department joined together with other governments as part of a public entity risk pool currently operating as a common risk management and insurance program. The Health Department pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The Health Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Health Department is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

**NOTE K – DEFERRED COMPENSATION PLAN:**

The Health Department offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The Plans are available to all employees who work at least 20 hours per week. The Plan is not available to on-call employees. The plans permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable future.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the health Department's general creditors. Therefore, the plan is no longer presented in these statements.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the Health Department has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries.

**NOTE K – DEFERRED COMPENSATION PLAN (Continued):**

The Health Department's plan is administered by Nationwide Retirement Solutions, and as Plan administrators, agree to hold harmless and indemnify the Board, its appointed and elected officers and participating employees from any loss resulting from Nationwide Retirement Solutions or their agents' failure to perform their duties and services pursuant to the Nationwide Retirement Solutions program.

**NOTE L – CAPITAL ASSETS:**

Capital asset activity of the Health Department for the current year was as follows:

|                                | Beginning<br>Balances<br>10/01/04 | Additions          | Deletions    | Ending<br>Balances<br>9/30/05 |
|--------------------------------|-----------------------------------|--------------------|--------------|-------------------------------|
| Land                           | \$90,000                          | \$-                | \$-          | \$90,000                      |
| Land Improvements              | 17,595                            | -                  | -            | 17,595                        |
| Buildings                      | 1,443,780                         | -                  | -            | 1,443,780                     |
| Equipment                      | 167,067                           | -                  | 7,005        | 160,062                       |
|                                | <u>1,718,442</u>                  | <u>-</u>           | <u>7,005</u> | <u>1,711,437</u>              |
| Less Accumulated Depreciation: |                                   |                    |              |                               |
| Land Improvements              | 9,518                             | 2,510              | -            | 12,028                        |
| Buildings                      | 647,732                           | 59,517             | -            | 707,249                       |
| Equipment                      | 119,622                           | 11,339             | 7,005        | 123,956                       |
|                                | <u>776,872</u>                    | <u>73,366</u>      | <u>7,005</u> | <u>843,233</u>                |
| Total                          | <u>\$941,570</u>                  | <u>(\$ 73,366)</u> | <u>\$-</u>   | <u>\$ 868,204</u>             |

## **Required Supplemental Information**



**Western Upper Peninsula District Health Department**  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
For the year ended September 30, 2005

|  | Original<br>Budget | Final<br>Amended<br>Budget | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|----------------------------|---------------------|---|
| <b>REVENUES:</b>                                       |                    |                            |                     |   |
| Fees and collections:                                  |                    |                            |                     |   |
| Home health services                                   | \$ 3,427,950       | \$ 3,427,950               | \$ 3,531,822        | \$ 103,872  |
| Contractual allowance                                  | -                  | -                          | (180,461)           | (180,461)   |
| Other fees, services and refunds                       | 876,000            | 876,000                    | 871,292             | (4,708)   |
| Projects and grants                                    | 930,460            | 930,460                    | 1,251,063           | 320,603   |
| State local public health operations                   | 420,040            | 420,040                    | 413,039             | (7,001)   |
| Cigarette tax  | -                  | -                          | 29,331              | 29,331  |
| <b>TOTAL REVENUES</b>                                  | <b>5,654,450</b>   | <b>5,654,450</b>           | <b>5,916,086</b>    | <b>261,636</b>  |
| <b>EXPENDITURES:</b>                                   |                    |                            |                     |   |
| Salaries and wages                                     | 3,560,548          | 3,560,548                  | 3,377,938           | 182,610   |
| Fringe benefits  | 1,388,972          | 1,388,972                  | 1,182,257           | 206,715   |
| Supplies   | 240,160            | 240,160                    | 519,489             | (279,329)   |
| Contracted services                                    | 157,047            | 157,047                    | 201,208             | (44,161)  |
| Communications   | 51,000             | 51,000                     | 50,980              | 20  |
| Travel and training                                    | 255,975            | 255,975                    | 288,028             | (32,053)  |
| Printing and advertising                               | 72,890             | 72,890                     | 69,025              | 3,865   |
| Insurance  | 53,545             | 53,545                     | 56,221              | (2,676)   |
| Utilities  | 36,175             | 36,175                     | 34,221              | 1,954   |
| Repairs and maintenance                                | 61,625             | 61,625                     | 76,088              | (14,463)  |
| Building and equipment lease/rentals                   | 50,422             | 50,422                     | 51,023              | (601)   |
| Miscellaneous  | 33,325             | 33,325                     | 42,912              | (9,587)   |
| Capital outlay   | 62,997             | 62,997                     | 71,629              | (8,632)   |
| Debt service   | 200,000            | 200,000                    | 198,945             | 1,055   |
| <b>TOTAL EXPENDITURES</b>                              | <b>6,224,681</b>   | <b>6,224,681</b>           | <b>6,219,964</b>    | <b>4,717</b>  |
| <b>EXCESS REVENUES (EXPENDITURES)</b>                  | <b>(570,231)</b>   | <b>(570,231)</b>           | <b>(303,878)</b>    | <b>266,353</b>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                  |                    |                            |                     |   |
| Local units:   |                    |                            |                     |   |
| Baraga County  | 51,542             | 51,542                     | 51,542              | -   |
| Keweenaw County  | 21,077             | 21,077                     | 21,077              | -   |
| Ontonagon County                                       | 51,142             | 51,142                     | 51,142              | -   |
| Gogebic County   | 101,984            | 101,984                    | 101,984             | -   |
| Operating transfers from primary government:           |                    |                            |                     |   |
| Houghton County  | 173,803            | 173,803                    | 173,803             | -   |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>            | <b>399,548</b>     | <b>399,548</b>             | <b>399,548</b>      | <b>-</b>  |
| <b>EXCESS REVENUES AND OTHER<br/>FINANCING SOURCES</b> | <b>(170,683)</b>   | <b>(170,683)</b>           | <b>95,670</b>       | <b>266,353</b>  |
| <b>FUND BALANCE, October 1</b>                         | <b>1,168,666</b>   | <b>1,168,666</b>           | <b>1,168,666</b>    | <b>-</b>  |
| <b>FUND BALANCE, SEPTEMBER 30</b>                      | <b>\$ 997,983</b>  | <b>\$ 997,983</b>          | <b>\$ 1,264,336</b> | <b>\$ 266,353</b>                                       |

## **Additional Information**

**Western Upper Peninsula District Health Department**  
Schedule of Expenditures by Reporting Unit  
For the Year ended September 30, 2005

|                                     | <u>Budget</u>       | <u>Actual</u>       | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|-------------------------------------|---------------------|---------------------|---|
| Agency Support                      | \$ 979,953          | \$ 991,845          | \$ (11,892)                                     |
| General Public Health Nursing       | 527,251             | 728,866             | (201,615)                                       |
| BCCCP                               | 45,276              | 47,999              | (2,723)   |
| Bioterrorism Emergency Preparedness | 163,755             | 166,095             | (2,340)   |
| CSHCS                               | 24,238              | 42,070              | (17,832)  |
| Dental                              | 82,544              | 78,727              | 3,817   |
| Electronic Recycling                | -                   | 27,471              | (27,471)  |
| Environmental Health                | 670,689             | 537,953             | 132,736   |
| Family Planning                     | 171,557             | 169,701             | 1,856   |
| Hearing & Vision                    | 57,001              | 54,581              | 2,420   |
| ISS                                 | -                   | 65,129              | (65,129)  |
| Local Tobacco Reduction             | 49,615              | 46,360              | 3,255   |
| Medicaid Outreach                   | -                   | 9,502               | (9,502)   |
| MSS                                 | 159,712             | 99,216              | 60,496  |
| Pie Grant                           | 8,985               | 5,522               | 3,463   |
| RSVP Project                        | 72,550              | 62,838              | 9,712   |
| Senior Screening                    | 9,567               | 15,655              | (6,088)   |
| Superior Home Nursing               | 2,960,854           | 2,802,474           | 158,380   |
| Substance Abuse                     | 72,780              | 74,020              | (1,240)   |
| WIC                                 | 168,354             | 193,940             | (25,586)  |
|                                     | <u>          </u>   | <u>          </u>   | <u>          </u>                               |
| TOTALS                              | <u>\$ 6,224,681</u> | <u>\$ 6,219,964</u> | <u>\$ 4,717</u>                                 |

**Western Upper Peninsula District Health Department**

Schedule of Departmental Expenditures

For the Year ended September 30, 2005

|                                     | Total               | Agency<br>Support | General<br>Public<br>Health<br>Nursing | BCCCP            | Bioterrorism<br>Emergency<br>Preparedness | CSHCS            | Dental           | Electronic<br>Recycling |
|-------------------------------------|---------------------|-------------------|--|------------------|---|------------------|------------------|-------------------------|
| Salaries and wages                  | \$ 3,377,938        | \$ 538,801        | \$ 232,336                             | \$ 27,616        | \$ 87,414                                 | \$ 21,535        | \$ 40,272        | \$ 7,864                |
| Fringe benefits                     | 1,182,257           | 214,704           | 89,945                                 | 8,756            | 33,372                                    | 12,963           | 11,921           | 1,321                   |
| Supplies                            | 519,489             | 12,767            | 323,948                                | 2,592            | 11,942                                    | 535              | 3,427            | 1,583                   |
| Contractual Services                | 201,208             | 22,086            | 8,597                                  | 886              | 1,336                                     | -                | 18,020           | 13,660                  |
| Communications                      | 50,980              | 6,712             | 3,832                                  | 419              | 10,627                                    | 337              | 159              | -                       |
| Travel and training                 | 288,028             | 7,142             | 7,183                                  | 1,118            | 3,441                                     | 493              | 800              | 870                     |
| Printing and advertising            | 69,025              | 8,532             | 1,575                                  | 486              | -   | -                | 572              | 1,923                   |
| Insurance                           | 56,221              | 55,650            | -                                      | -                | -   | -                | -                | -                       |
| Utilities                           | 34,221              | 6,223             | 5,380                                  | 563              | 590                                       | 625              | 174              | -                       |
| Repairs and maintenance             | 76,088              | 24,312            | 10,737                                 | 1,021            | 1,024                                     | 993              | 381              | -                       |
| Building and equipment lease/rental | 51,023              | 7,655             | 6,308                                  | 526              | 2,208                                     | 789              | -                | 250                     |
| Miscellaneous                       | 42,912              | 16,949            | 858                                    | 54               | 200                                       | -                | -                | -                       |
| Capital outlay                      | 71,629              | 23,594            | 6,751                                  | 762              | 11,639                                    | 377              | 1,693            | -                       |
| Depreciation                        | -                   | -                 | -                                      | -                | -   | -                | -                | -                       |
| Debt service                        | 188,945             | 46,718            | 31,416                                 | 3,200            | 2,302                                     | 3,423            | 1,308            | -                       |
| <b>TOTALS</b>                       | <b>\$ 6,219,964</b> | <b>\$ 991,845</b> | <b>\$ 728,866</b>                      | <b>\$ 47,999</b> | <b>\$ 166,095</b>                         | <b>\$ 42,070</b> | <b>\$ 78,727</b> | <b>\$ 27,471</b>        |

Western Upper Peninsula District Health Department

Schedule of Departmental Expenditures

For the Year ended September 30, 2005

|                                     | Environmental<br>Health | Family<br>Planning | Hearing &<br>Vision | ISS       | Local<br>Tobacco<br>Reduction | Medicaid<br>Outreach | MSS       |
|-------------------------------------|-------------------------|--------------------|---------------------|-----------|-------------------------------|----------------------|-----------|
| Salaries and wages                  | \$ 331,488              | \$ 59,299          | \$ 30,630           | \$ 42,179 | \$ 25,915                     | \$ 6,976             | \$ 57,710 |
| Fringe benefits                     | 110,381                 | 22,994             | 13,312              | 19,641    | 11,047                        | 2,525                | 18,458    |
| Supplies                            | 13,636                  | 30,219             | 1,299               | 349       | 393                           | -                    | 937       |
| Contractual Services                | 1,748                   | 34,552             | -                   | 163       | -                             | -                    | 949       |
| Communications                      | 3,829                   | 1,330              | 373                 | -         | 185                           | -                    | 1,387     |
| Travel and training                 | 32,201                  | 764                | 1,995               | 2,754     | 1,132                         | 1                    | 3,169     |
| Printing and advertising            | 4,544                   | 251                | -                   | -         | 4,495                         | -                    | -         |
| Insurance                           | -                       | -                  | -                   | -         | -                             | -                    | -         |
| Utilities                           | 2,807                   | 1,854              | 452                 | -         | 240                           | -                    | 1,577     |
| Repairs and maintenance             | 4,768                   | 3,404              | 999                 | 43        | 529                           | -                    | 2,554     |
| Building and equipment lease/rental | 6,213                   | 3,786              | -                   | -         | -                             | -                    | 3,993     |
| Miscellaneous                       | 7,114                   | 540                | -                   | -         | 90                            | -                    | 142       |
| Capital outlay                      | 4,043                   | 1,752              | 2,074               | -         | 522                           | -                    | 1,237     |
| Depreciation                        | -                       | -                  | -                   | -         | -                             | -                    | -         |
| Debt service                        | 15,181                  | 8,956              | 3,447               | -         | 1,812                         | -                    | 7,103     |
| TOTALS                              | \$ 537,953              | \$ 169,701         | \$ 54,581           | \$ 65,129 | \$ 46,360                     | \$ 9,502             | \$ 99,216 |

**Western Upper Peninsula District Health Department**  
Schedule of Departmental Expenditures  
For the Year ended September 30, 2005

|                                     | Ple<br>Grant    | RSVP<br>Project  | Senior<br>Screening | Superior<br>Home<br>Nursing | Substance<br>Abuse | WIC               |
|-------------------------------------|-----------------|------------------|---------------------|-----------------------------|--------------------|-------------------|
| Salaries and wages                  | \$ 3,667        | \$ 31,116        | \$ 8,084            | \$ 1,670,562                | \$ 42,044          | \$ 112,430        |
| Fringe benefits                     | 512             | 10,276           | 4,534               | 533,938                     | 15,610             | 46,047            |
| Supplies                            | 777             | 13,877           | 2,896               | 88,768                      | 1,339              | 8,205             |
| Contractual Services                | -               | -                | -                   | 98,761                      | 450                | -                 |
| Communications                      | -               | 43               | -                   | 19,691                      | 466                | 1,590             |
| Travel and training                 | 191             | 5,263            | 95                  | 207,996                     | 6,311              | 5,109             |
| Printing and advertising            | 375             | 651              | 46                  | 45,105                      | -                  | 470               |
| Insurance                           | -               | 571              | -                   | -                           | -                  | -                 |
| Utilities                           | -               | -                | -                   | 11,110                      | 707                | 1,919             |
| Repairs and maintenance             | -               | -                | -                   | 20,726                      | 1,015              | 3,582             |
| Building and equipment lease/rental | -               | -                | -                   | 14,371                      | 1,578              | 3,346             |
| Miscellaneous                       | -               | 1,041            | -                   | 15,823                      | 59                 | 42                |
| Capital outlay                      | -               | -                | -                   | 15,041                      | 522                | 1,622             |
| Depreciation                        | -               | -                | -                   | -                           | -                  | -                 |
| Debt service                        | -               | -                | -                   | 60,582                      | 3,919              | 9,578             |
| <b>TOTALS</b>                       | <b>\$ 5,522</b> | <b>\$ 62,838</b> | <b>\$ 15,655</b>    | <b>\$ 2,802,474</b>         | <b>\$ 74,020</b>   | <b>\$ 193,940</b> |

## **Compliance Supplements**



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

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ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
KINROSS  
MARQUETTE

WISCONSIN  
GREEN BAY  
MILWAUKEE

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Health  
Western Upper Peninsula District Health Department  
Hancock, Michigan 49930

We have audited the financial statements of the Western Upper Peninsula District Health Department, a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2005, and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Upper Peninsula District Health Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

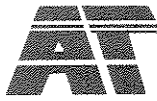
As part of obtaining reasonable assurance about whether the Western Upper Peninsula District Health Department's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

January 20, 2006





**ANDERSON, TACKMAN & COMPANY, P.L.C.**

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GREEN BAY  
MILWAUKEE

January 20, 2006

Western Upper Peninsula District Health Department  
Board of Health  
540 Depot Street  
Hancock, MI 49930

We have audited the financial statements of the Western Upper Peninsula District Health Department for the year ended September 30, 2005, and have issued our report thereon dated January 20, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the internal control structure over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each

of its major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of accounting policies and their application. The significant accounting policies used are described in the Footnotes of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

**Conclusion**

This information is intended solely for the use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants